

INKSTER HOUSING COMMISSION

Financial Statements

December 31, 2007

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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Inkster Housing Commission
Management Discussion and Analysis
4500 Inkster Road
Inkster, MI 48141

Tony L. Love, Executive Director

As management of the Inkster Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Inkster Housing Commission's financial activities for the FYE 12/31/07. This discussion and analysis letter of the Inkster Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" – activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

Overview of the Financial Statements

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

Management Discussion and Analysis, continued

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Inkster Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

Management Discussion and Analysis, continued

Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 12/31/07:

	<u>FYE</u> <u>12/31/07</u>	<u>FYE</u> <u>12/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Public Housing Operating Subsidy	2,980,062	2,985,940	(5,878)	-0.20%
Capital Fund Program Grants	607,135	780,685	(173,550)	-22.23%
Sec. 8 Voucher	<u>4,421,057</u>	<u>3,803,889</u>	617,168	16.22%
Total	8,008,254	7,570,514	437,740	5.78%

The subsidy for Public Housing remained flat from 2006 to 2007.

The decrease in Capital Fund Grants was due to the fact that FY 2007 funds were accumulated for debt service of the Fannie Mae Modernization Express Program.

The subsidy for Sec. 8 Voucher increased due to the addition of new units. We were awarded an op-out project in October 2006 of 234 units. This addition was a 45% increase in our Sec. 8 unit portfolio. The 2006 subsidy reflected only 3 months of increased subsidy, while we received 12 months of increased subsidy during 2007.

The following represents changes in the Balance Sheet:

	<u>FYE</u> <u>12/31/07</u>	<u>FYE</u> <u>12/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Cash & Investments	5,092,452	4,043,529	1,048,923	25.94%
Total Current Assets	5,488,884	4,204,789	1,284,095	30.54%
Fixed Assets, Net of Depreciation	17,955,318	12,082,321	5,872,997	48.61%
Total Assets	23,444,202	16,287,110	7,157,092	43.94%
Total Current Liabilities	811,319	431,383	379,936	88.07%
Total Long-Term Liabilities	5,701,658	67,221	5,634,437	8381.96%
Total Liabilities	6,512,977	498,604	6,014,373	1206.24%
Total Equity/Net Assets	16,931,225	15,788,506	1,142,719	7.24%

- Cash and Investments increased by almost 26%. The increase was entirely in the Sec. 8 Voucher program due to HAP subsidy received in excess of HAP costs. The excess was over \$1,000,000.

Management Discussion and Analysis, continued

- Total Current Assets increased mainly due to the same reason as Cash & Investments: the excess HAP subsidy received. We also had small increases in both HUD Accounts Receivables and Tenant Accounts Receivable.
- Fixed Assets increased by \$6,685,028; this increase is represented mainly by the capital improvements made through the Energy Savings Program. Although Fixed Assets increased by \$6,685,028, this was partially offset by depreciation and equipment disposal charges.
- Total Assets increased by over \$7,000,000 due to the reasons stated above: excess HAP subsidy and capital improvements funded through the Energy Savings Program.
- Total Current Liabilities increased by \$379,936. Although there were small increases and decreases in several line items, the main reason for the increase was the booking of the loan liability for the Energy Savings Program.
- Total Long-Term Liabilities increased due to the new loan liability of the Energy Savings Program.
- Total Liabilities increased due to the loan liability of the Energy Savings Program.
- Total Net Assets is comprised of two components: Invested in Capital Assets, which mirrors the increase in Fixed Assets, Net of Depreciation as explained above. The other component is Unrestricted Net Assets, or what used to be called Operating Reserves. This figure increased due to the Operating Income generated by the Public Housing Program for FYE 12/31/07. There was also a substantial increase in the Restricted Equity section for Section 8 due to the excess HAP subsidy received, although this excess HAP is restricted to future HAP use only.

Management Discussion and Analysis, continued

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FYE</u> <u>12/31/07</u>	<u>FYE</u> <u>12/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Revenues:				
Tenant Revenue	860,118	699,403	160,715	23.0%
Other Revenue	<u>452,128</u>	<u>231,511</u>	<u>220,617</u>	95.3%
Total PHA generated Revenue	1,312,246	930,914	381,332	41.0%
Operating Subsidies/Soft Cost Grant Revenue	7,860,862	7,071,038	789,824	11.2%
Capital Grants (Hard costs)	<u>154,159</u>	<u>511,242</u>	<u>(357,083)</u>	-69.8%
Total Revenue	9,327,267	8,513,194	814,073	9.6%
Expenses:				
Administrative	1,397,285	1,253,465	143,820	11.5%
Tenant Services	102,392	63,756	38,636	60.6%
Utilities	759,734	827,645	(67,911)	-8.2%
Maintenance	1,440,478	1,464,069	(23,591)	-1.6%
General	585,686	419,433	166,253	39.6%
Protective Services	224,721	211,463	13,258	6.3%
Extraordinary Maintenance	0	9,851	(9,851)	-100.0%
Casualty Losses	0	40,143	(40,143)	-100.0%
Housing Assistance Payments	2,796,882	2,152,020	644,862	30.0%
Depreciation	<u>877,370</u>	<u>728,996</u>	<u>148,374</u>	20.4%
Total Expenses	8,184,548	7,170,841	1,013,707	14.1%
Net Increase (Decrease)	1,142,719	1,342,353		

Revenues:

Inkster Housing Commission's primary revenue sources are subsidies and grants received by HUD. For FYE 12/31/07, revenue generated by the Commission accounted for \$1,312,246 (or 14% of total revenue), while HUD contributions accounted for \$8,015,021 (or 86% of total revenue).

- Investment Income increased substantially due to interest earned for a few months on the \$6,300,000 Energy Savings Program loan and on the excess \$1,000,000 in HAP subsidy.

Management Discussion and Analysis, continued

Expenses:

Total Expenses for FYE 12/31/07 were \$8,184,548 while for FYE 12/31/06 the total was \$7,170,841. This represents a 14.1% increase in our Operating Costs. However, most of the increase is attributable to three areas: HAP costs, depreciation, and interest expense.

- HAP costs increased due to continued lease-up of the new units we received 10/1/06. Our lease-up number increased over 2006 levels by almost 31%. HAP costs increased by approximately the same amount.
- Depreciation expense increased by \$148,374, a 20% increase. This large increase is attributable to the \$6,000,000 plus of capital improvements.
- Interest expense was a non-existent expense in 2006, but will be a continuing expense for the next 12 years as a result of the energy savings loan liability.

If the above three unusual items are eliminated from our analysis, our operating costs decreased from 2006 to 2007 by \$34,259. Even though we posted an overall decrease in our on-going operating costs; there were a few areas that increased:

	<u>FYE</u> <u>12/31/07</u>	<u>FYE</u> <u>12/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Administrative Salaries & Benefits	975,608	828,337	147,271	17.8%
Tenant Services Salaries & Benefits	78,557	31,924	46,633	146.1%
Other Tenant Services	23,835	15,699	8,136	51.8%
Protective Services	224,721	211,463	13,258	6.3%
Collection Losses	45,210	29,187	16,023	54.9%

- Administrative Salaries/Benefits and Tenant Services Salaries/Benefits: we filled several vacant positions in 2007, resulting in the increased cost.
- Other Tenant Services: this increase was primarily due to the Emergency Food & Shelter grants we received and distributed to our tenants in 2007.
- Protective Services increased due to rising costs of security personnel and police personnel.
- Collection Losses increased over 2006 levels. This is a reflection of both the dire economic situation in Michigan as well as the fact that we had more tenants overall as of 12/31/07 than 12/31/06

Management Discussion and Analysis, continued

Budget Analysis:

A Low Rent Public Housing Operating Budget for FYE 12/31/07 was presented to and approved by the Board of Commissioners. Subsequently, we had reason to prepare and present a Budget Revision to the Board and they approved it. Actual results were in line with the revised budgeted amounts.

Entity-Wide Operational Highlights:

The Inkster Housing Commission provided the following housing for low- income elderly and low-income families:

	<u>FYE</u> <u>12/31/07</u>	<u>FYE</u> <u>12/31/06</u>
Public Housing	781	781
Sec. 8 Voucher	751	751

During FYE 12/31/07, Inkster Housing Commission maintained a lease-up rate of 88.1% in its Public Housing Program (after adjusting for Modernization off-line units) and a lease-up rate of 88.5% in its Section 8 program. These lease-up rates are under the HUD-prescribed target of 97%. We are working to increase our lease-up rates.

In regards to the low-income public housing program, underutilization of units, it has been an ongoing problem since the late 90's. However, in 2000 the current management realized this persistent problem in managing the housing stock. Therefore, in 2004, the current management team began an application process with Fannie Mae through the Modernization Express Program to leverage one-third of its annual allocation of Capital Fund dollars to totally renovate the developments.

Over the last four years, the current management team experienced hurdles and roadblocks from The City Council of Inkster to amend the ordinance to allow the IHC to create debt in order to renovate long-term vacant units. However, it is pleasing to acknowledge as of June 18, 2008, the IHC secured funding from Fannie Mae through the Modernization Express program in order to renovate apartments located in Lemoyne Gardens, Demby Terrace and Parkside Developments.

Management strongly feels that upon completion of the fore-mentioned renovated developments and marketing to families currently on the low-income public housing waiting list, long-term vacant units will become occupied.

In regards to the Section 8 Program the problem occurred when the Inkster Housing Commission received a large number of Opt-Out Housing Vouchers from the U. S. Department of Housing and Urban Development (HUD). HUD indicated to Inkster Housing Commission that the families would be eligible to remain in place under the Tenant-Based Section 8 program. However, the staff discovered that HUD's assertion that the majority of the families would be leased in place with Section 8 assistance was not true.

Less than 2 percent of the families examined for eligibility became participants with the "Opt-Out" Section 8 Housing Vouchers. To increase the utilization rate, the Section 8 staff has removed housing preference qualifications as the criteria for families receiving Housing Vouchers. The removal of the housing preference qualifications will allow additional families into the Section 8 program without having to meet a housing preference qualification. Currently, there are an abundance of non-preference families on the Section 8 waiting list. All Non-Preference Families will be contacted to meet the utilization schedule by the end of the 2008 Fiscal Year. It is indented that by the end of the 2008 Fiscal Year, the utilization numbers will significantly increase.

As of July 2008, the Inkster Housing Commission announced and opened its waiting list for 300 families. Upon receipt of completed applications, families will be provided an opportunity to receive a Housing Choice Voucher prior to the end of this fiscal year as non-housing preference families.

During FYE 12/31/07, our Capital work projects included:

- Through the Energy Savings Program, we made several improvements related the energy savings throughout our projects. These improvements included new windows, furnaces, lighting, faucets, showerheads, toilets, boilers, thermostats, etc.
- Through our Capital Fund Program we replaced our computer system, completed roof replacement, A&E fees and costs, and appliance replacements.

Economic Factors and Next Year's Budget and Rates

The Housing Commission is very concerned about the effect of the Project-Based Management and Accounting requirements on a Commission of our size. We feel that the threshold of 250 units is too low to impose Project-Based Management and Accounting. After attending training, we feel that Project Based Management does make sense at larger authorities (1,000+ units). In addition, it will cost us more to operate our Public Housing Program on a decentralized basis than the agency-wide basis as we operate today. We will be less efficient. Inevitably, cuts in services to our residents will have to be made.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that, in the short term, we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

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Inkster Housing Commission
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Inkster, MI 48141

John C. DiPiero, P.C.

Certified Public Accountant

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Hemlock, Michigan 48626
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Board of Commissioners
Inkster Housing Commission
4500 Inkster Road
Inkster, Michigan 48141

Independent Auditor's Report

I have audited the financial statements of the Inkster Housing Commission Business Type Activities of the as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inkster Housing Commission as of December 31, 2007, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 5, 2008, on my consideration of the Inkster Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

September 5, 2008

INKSTER HOUSING COMMISSION
Statement of Net Assets
December 31, 2007

ASSETS

C-3015

CURRENT ASSETS

Cash	\$ 5,092,452
Accounts Receivable	89,942
Investments	246,107
Prepaid Expenses	<u>60,383</u>

Total Current Assets \$ 5,488,884

NON CURRENT ASSETS

Land	\$ 1,891,187
Buildings	21,810,280
Furniture, Equipment- Dwellings	563,202
Furniture, Equipment- Administrative	566,284
Leasehold Improvements	16,946,809
Accumulated Depreciation	<u>(23,822,444)</u>

Total Non Current Assets 17,955,318

TOTAL ASSETS \$ 23,444,202

INKSTER HOUSING COMMISSION
Statement of Net Assets
December 31, 2007

LIABILITIES & NET ASSETS

C-3015

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	40,839	
Accrued Liabilities		199,975	
Accrued Compensated Absences		3,775	
Tenants Security Deposit		91,164	
Deferred Revenue		38,455	
Capital Projects Loan- Current Portion		<u>437,111</u>	
<u>Total Current Liabilities</u>			\$ <u>811,319</u>

NON CURRENT LIABILITIES

Capital Projects Loan	\$	6,104,798	
Current Portion-Above		<u>437,111</u>	5,667,687
Accrued Compensated Absences			<u>33,971</u>
<u>Total Non Current Liabilities</u>			\$ <u>5,701,658</u>
<u>Total Liabilities</u>			\$ 6,512,977

NET ASSETS:

Investment in Fixed Assets			
net of Related Debt	\$	11,850,520	
Restricted Net Assets		3,283,788	
Unrestricted Net Assets		<u>1,796,917</u>	
<u>Total Net Assets</u>			<u>16,931,225</u>

TOTAL LIABILITIES & NET ASSETS \$ 23,444,202

The Accompanying Footnotes are an Integral Part of the Financial Statements

INKSTER HOUSING COMMISSION
Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended December 31, 2007

OPERATING REVENUE

Tenant Rental Revenue	\$ 769,520	
Tenant Revenue-Other	90,598	
HUD Grants	7,854,095	
Interest Income	244,805	
Interest Income-Restricted	148,368	
Other Income	<u>65,722</u>	
<u>Total Operating Revenue</u>		\$ 9,173,108

OPERATING EXPENSES

Administrative	\$ 1,397,285	
Tenant Services	102,392	
Utility Expenses	759,734	
Ordinary Maintenance	1,440,478	
Protective Services	224,721	
General Expenses	585,686	
Housing Assistance Payments	2,796,882	
Depreciation Expenses	<u>877,370</u>	
<u>Total Operating Expenses</u>		<u>8,184,548</u>
<u>Operating Income (Loss)</u>		\$ 988,560

CAPITAL CONTRIBUTIONS

	<u>154,159</u>
<u>Changes in Net Assets</u>	\$ 1,142,719
Total Net Assets- Beginning	<u>15,786,386</u>
Total Net Assets- Ending	\$ <u>16,931,225</u>

The Accompanying Notes are an Integral part of the Financial Statements

INKSTER HOUSING COMMISSION
Statement of Cash Flows
For the Year Ended December 31, 2007

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 848,883
Payments to Suppliers	(6,408,122)
Payments to Employees	(972,259)
HUD Grants	7,854,095
Other Receipts (Payments)	<u>458,895</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>1,781,492</u>

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Capital Loan Proceeds	\$ 6,104,798
Capital Contributions	154,159
Purchases of Capital Assets	<u>(6,750,367)</u>
Net Cash Provided from (used) in Related Financing Activities	<u>(491,410)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,290,082
Balance- Beginning of Year	<u>3,802,370</u>
Balance- End of Year	\$ <u>5,092,452</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 988,560
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	877,370
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(33,900)
Investments	(4,948)
Prepaid Expenses	109,704
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(49,243)
Accrued Liabilities	(34,773)
Compensated Absences	(36,938)
Security Deposits	(5,280)
Deferred Revenue	<u>(29,060)</u>
Net Cash Provided by Operating Activities	\$ <u>1,781,492</u>

The Accompanying Notes are an Integral part of the Financial Statements

INKSTER HOUSING COMMISSION
Notes to Financial Statements
December 31, 2007

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Inkster Housing Commission, Inkster, Michigan, (Commission) was created by ordinance of the city of Inkster. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 27-1-6	Low rent program	781 units
MI 28-V027	Section 8 Vouchers	517 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above, there are no component units. These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits & investments are stated at cost which approximates market value.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Notes to Financial Statements- continued

Due to/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the Balance Sheet.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	27.5 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 1,464,210	
Restricted Checking Account	<u>3,283,788</u>	\$ 4,747,998
Petty Cash		250
Money Market Accounts		<u>333,125</u>
Financial Statement Total		\$ <u>5,092,452</u>

Investments:

Certificates of Deposit	\$ <u>246,107</u>
-------------------------	-------------------

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

Notes to Financial Statements- continued

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C	\$ 4,747,998	\$	\$	\$ 4,747,998	\$ 4,747,998
Petty Cash	250			250	250
Money Market	<u>333,125</u>			<u>333,125</u>	<u>333,125</u>
Total Cash	\$ <u>5,092,452</u>	\$	\$	\$ <u>5,092,452</u>	\$ <u>5,092,452</u>
Investments:					
C/D's	\$ <u>246,107</u>	\$	\$	\$ <u>246,107</u>	\$ <u>246,107</u>

Note 3: Accounts Receivable

Accounts Receivable (net) consist of the following:

Accounts Receivable- Tenants	\$ 23,238
Less- Allowance for Doubtful Accounts	(16,460)
Accounts Receivable- Tenants fraud	6,438
Less- Allowance for Doubtful Accounts	(6,438)
Accrued Interest Receivable	1,250
Account Receivable-HUD	<u>81,914</u>
Accounts Receivable (net)	\$ <u>89,942</u>

Note 4: Prepaid Expenses

Prepaid Expenses consist of insurance premiums covering assets beyond the date of this audit, and health benefits paid for after year end. The following represents prepaid expenses:

Prepaid Insurance Expense	\$ 60,383
---------------------------	-----------

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>End</u>
	<u>of Year</u>			<u>of Year</u>
Land	\$ 1,891,187	\$	\$	\$ 1,891,187
Buildings	21,810,280			21,810,280
Furniture & Equipment-Dwellings	501,240	61,962		563,202
Furniture & Equipment-Admin	599,435	32,188	65,339	566,284
Leasehold Improvements	<u>10,290,592</u>	<u>6,656,217</u>		<u>16,946,809</u>
	\$35,092,734	\$6,750,367	\$ 65,339	\$35,092,734
Less: Acc Depreciation	<u>23,010,413</u>	<u>877,370</u>	<u>65,339</u>	<u>23,822,444</u>
	<u>\$12,082,321</u>	<u>\$5,872,997</u>	\$	<u>\$17,955,318</u>

Notes to Financial Statements, continued

Note 6: Accrued Liabilities

Accrued liabilities consist of the following:

Accrued Payroll & Payroll Taxes	\$ 60,077
Accrued Liabilities-miscellaneous	1,757
Accrued Utilities	<u>138,141</u>
Total Accrued Liabilities	\$ <u>199,975</u>

Note 7: Deferred Revenue

Deferred Revenue consists of the following:

Tenants prepaid rent	\$ 8,024
Insurance Proceeds	<u>30,431</u>
Total Deferred Revenue	\$ <u>38,455</u>

Note 8: Retirement.

The Commission has a non mandatory, Defined Benefit Plan (Plan), for all eligible employees. The Plan calls for 3% of annual wage contribution by all participants. Eligibility requirements are as follows: Full time employees, one year service. The Commission paid \$ 72,976 for employees during the fiscal year; total plan assets @ 12/31/2007 \$ 929,338.

Note 9: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 65,529,000
General Liability	5,000,000
Errors & Omissions	1,000,000
Automobile	300,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Note 10: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 11: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Inkster Housing Commission

31-Dec-07

MI027

			Section 8 Housing Choice Voucher Program	Capital Projects Funds	Emergency Food and Shelter National Board Program	
	Combining Balance Sheet	Low Rent 14.850	14.855	14.872	97.24	TOTAL
Line Item #						
	ASSETS:					
	CURRENT ASSETS:					
	Cash:					
111	Cash - unrestricted	1,321,378	396,023	-	99	1,717,500
112	Cash - restricted - modernization and development	-			-	-
113	Cash - other restricted		3,283,788			3,283,788
114	Cash - tenant security deposits	91,164			-	91,164
100	Total cash	1,412,542	3,679,811	-	99	5,092,452
	Accounts and notes receivables:					
121	Accounts receivable - PHA projects					-
122	Accounts receivable - HUD other projects	-		81,914		81,914
124	Accounts receivable - other government					-
125	Accounts receivable - miscellaneous	-				-
126	Accounts receivable- tenants - dwelling rents	23,238				23,238
126.1	Allowance for doubtful accounts - dwelling rents	(16,460)				(16,460)
126.2	Allowance for doubtful accounts - other					-
127	Notes and mortgages receivable- current					-
128	Fraud recovery	6,438				6,438
128.1	Allowance for doubtful accounts - fraud	(6,438)				(6,438)
129	Accrued interest receivable	1,250				1,250
120	Total receivables, net of allowances for doubtful accounts	8,028	-	81,914	-	89,942
	Current investments					-
131	Investments - unrestricted	246,107				246,107
132	Investments - restricted					-
	Prepaid expenses and other assets					-
142	Prepaid expenses and other assets	60,383				60,383
143	Inventories	-				-
143.1	Allowance for obsolete inventories					-
144	Interprogram - due from	388,614	-	-	-	388,614
146	Amounts to be provided					-
150	TOTAL CURRENT ASSETS	2,115,674	3,679,811	81,914	99	5,877,498
	NONCURRENT ASSETS:					
	Fixed assets:					
161	Land	1,891,187				1,891,187
162	Buildings	21,810,280				21,810,280
163	Furniture, equipment & machinery - dwellings	487,776		75,426		563,202
164	Furniture, equipment & machinery - administration	475,939	30,318	60,027		566,284
165	Leasehold improvements	14,465,914		2,480,895		16,946,809
166	Accumulated depreciation	(23,452,526)	(27,442)	(342,476)		(23,822,444)
160	Total fixed assets, net of accumulated depreciation	15,678,570	2,876	2,273,872	-	17,955,318
171	Notes and mortgages receivable - non-current					-
176	Investment in joint ventures					-
180	TOTAL NONCURRENT ASSETS	15,678,570	2,876	2,273,872	-	17,955,318
190	TOTAL ASSETS	17,794,244	3,682,687	2,355,786	99	23,832,816

	LIABILITIES AND EQUITY					
	LIABILITIES:					
	CURRENT LIABILITIES					
311	Bank overdraft					-
312	Accounts payable ≤ 90 days	34,839	6,000	0		40,839
313	Accounts payable > 90 days past due					-
321	Accrued wage/payroll taxes payable	60,077				60,077
322	Accrued compensated absences	3,775				3,775
324	Accrued contingency liability					-
325	Accrued interest payable					-
331	Accounts payable - HUD PHA programs		-			-
332	Accounts Payable - PHA Projects					-
333	Accounts payable - other government	1,757	-	-		1,757
341	Tenant security deposits	91,164				91,164
342	Deferred revenues	38,455		-		38,455
343	Current portion of Long-Term debt - capital projects	437,111				437,111
344	Current portion of Long-Term debt - operating borrowings					-
345	Other current liabilities	138,141		0		138,141
346	Accrued liabilities - other	-	-		-	-
347	Inter-program - due to	-	306,700	81,914		388,614
310	TOTAL CURRENT LIABILITIES	805,319	312,700	81,914	-	1,199,933
	NONCURRENT LIABILITIES					
351	Long-term debt, net of current- capital projects	5,667,687				5,667,687
352	Long-term debt, net of current- operating borrowings					-
354	Accrued Compensated Absences-non current	33,971				33,971
350	TOTAL NONCURRENT LIABILITIES	5,701,658	-	-	-	5,701,658
300	TOTAL LIABILITIES	6,506,977	312,700	81,914	-	6,901,591
	EQUITY:					
501	Investment in general fixed assets					-
	Contributed Capital:					
502	Project notes (HUD)					-
503	Long-term debt - HUD guaranteed	-				-
504	Net HUD PHA contributions	-				-
505	Other HUD contributions					-
508.01	Net Assets invested in Capital Assets	9,573,772	2,876	2,273,872		11,850,520
508	Total contributed capital	9,573,772	2,876	2,273,872	-	11,850,520
	Reserved fund balance:					
509	Reserved for operating activities					-
510	Reserved for capital activities					-
511	Total reserved fund balance	-	-	-		-
511.1	Restricted Net Assets		3,283,788			3,283,788
512	Unrestricted Net Assets	1,713,495	83,323	-	99	1,796,917
513	TOTAL EQUITY	11,287,267	3,369,987	2,273,872	99	16,931,225
600	TOTAL LIABILITIES AND EQUITY	17,794,244	3,682,687	2,355,786	99	23,832,816

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Inkster Housing Commission

31-Dec-07

MI027

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	Emergency Food and Shelter National Board Program 97.24	TOTAL
Line Item #				-		
	REVENUE:	-	-			
703	Net tenant rental revenue	769,520				769,520
704	Tenant revenue - other	90,598				90,598
705	Total tenant revenue	860,118	-	-		860,118
706	HUD PHA grants	2,980,062	4,421,057	607,135	-	8,008,254
708	Other government grants				6,767	6,767
711	Investment income - unrestricted	240,572	4,233	-		244,805
712	Mortgage interest income					-
714	Fraud recovery		1,662			1,662
715	Other revenue	58,649	-	-		58,649
716	Gain or loss on the sale of fixed assets	(1,356)	-			(1,356)
720	Investment income - restricted		148,368			148,368
700	TOTAL REVENUE	4,138,045	4,575,320	607,135	6,767	9,327,267
	EXPENSES:					
	Administrative					
911	Administrative salaries	503,086	140,320	-		643,406
912	Auditing fees	8,350				8,350
913	Outside management fees					-
914	Compensated absences	56				56
915	Employee benefit contributions- administrative	265,356	66,846			332,202
916	Other operating- administrative	243,499	164,611	5,161		413,271
	Tenant services					
921	Tenant services - salaries	32,050	20,880			52,930
922	Relocation costs	-		-		-
923	Employee benefit contributions- tenant services	19,507	6,120			25,627
924	Tenant services - other	10,825			13,010	23,835
	Utilities					
931	Water	230,312	919			231,231
932	Electricity	223,333	4,495		-	227,828
933	Gas	297,921	2,754			300,675
934	Fuel					-
935	Labor					-
937	Employee benefit contributions- utilities					-
938	Other utilities expense	-				-
	Ordinary maintenance & operation					
941	Ordinary maintenance and operations - labor	275,923				275,923
942	Ordinary maintenance and operations - materials & other	131,421				131,421
943	Ordinary maintenance and operations - contract costs	800,671	7,965	58,690		867,326
945	Employee benefit contributions- ordinary maintenance	165,808				165,808
	Protective services					
951	Protective services - labor					-

INKSTER HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3015 Operating Subsidies	\$ <u>2,980,062</u>
* <u>CFDA 14.156 Housing Assistance Programs</u>	
C-3099V Section 8 Rental Vouchers	\$ <u>4,421,057</u>
* <u>CFDA 14.872 Capital Funds Projects</u>	
C-3015 Capital Funds Projects	\$ <u>607,135</u>

Department of Homeland Security

CFDA 97.24 Emergency Food & Shelter National Board Program

C-3015 Grant Program XXIII	\$ <u>6,767</u>
	\$ <u>8,015,021</u>

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

INKSTER HOUSING COMMISSION
Status of Prior Audit Findings
December 31, 2007

The prior audit of the Inkster Housing Commission for the period ended December 31, 2006, contained two audit findings; the following represents the corrective action taken by the Commission:

Finding 06-1 Tenant Accounting Discrepancies- Low Rent Program

Low Rent- Leases remained month to month; some income verification problems- both resolved satisfactorily.

Finding 06-2 Tenant Accounting Discrepancies- Section 8 Housing Choice Vouchers

Several missing forms, income verification problems- all issues resolved satisfactorily.

INKSTER HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
December 31, 2007

I have audited the financial statements of the Inkster Housing Commission of Inkster, Michigan, as of and for the year ended December 31, 2007, and have issued my report thereon dated September 5, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Inkster Housing Commission's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. I did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs.

This report is intended solely for the information of management, Board of Commissioners, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
September 5, 2008

INKSTER HOUSING COMMISSION
Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133
December 31, 2007

Compliance

I have audited the compliance of the Inkster Housing Commission of Inkster, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. My responsibility is to express an opinion on the Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Commission's compliance with those requirements.

In my opinion, except as noted below, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Program-		
Program Underutilization	7-1	None
Section 8 Housing Choice Program-		
Program Underutilization	7-2	None

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Commission's internal control over compliance.

My consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I considered the deficiencies in internal control over compliance as described above.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. I did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Inkster Housing Commission's response to the findings identified in my audit are described in the accompanying schedule of findings and question costs. I did not audit Inkster Housing Commission's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of, management, Board of Commissioners, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
September 5, 2008

Summary of Auditor's Results:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Housing Assistance Programs	X	
Capital Projects Funds	X	
Emergency Food & Shelter Program		X

Financial Statements-

Material weakness(es) noted	<u> </u> Yes	<u> </u> X	<u> </u> No
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Control Deficiency (ies) noted	Yes	X	No
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Non Compliance material to financial statements noted	Yes	X	No
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Report on compliance for Federal programs-

Material weakness(es) noted	Yes	X	No
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Control Deficiency (ies) noted	X	Yes	No
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Non Compliance material to financial statements noted	Yes	X	No
---	-----	---	----

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee.

Schedule of Findings and Questioned Cost- continued

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number .</u>
Low Rent Public Housing	Yes	None	07-1
Housing Assistance Programs	Yes	None	07-2
Capital Projects Funds	Yes	None	N/A
Emergency Food & Shelter Program	No	None	N/A

INKSTER HOUSING COMMISSION
Schedule of Findings, Recommendations and Replies
December 31, 2007

The following findings of the Inkster Housing Commission, for the year ended December 31, 2007, were discussed with the Director, Mr. Tony Love, in an exit interview conducted July 17, 2008.

7-1) Program under-utilization-Low Rent Program.

Criteria-

The Commission has a fiduciary responsibility to utilize programs granted under contracts and grants according to the program requirements issued by the funding agency-HUD.

Condition-

The Commission has experienced sever vacancy rates in both the senior high-rise and the family units for a number of years; the solution to remedy those vacancies has included grants to improve curb appeal, renovations of the high-rise, funds to increase energy savings, roofs, siding, landscaping, etc., however, vacancy rates over the past several years have exceeded 30%.

Questioned Cost-

None

Effect-

The Commission has had 240 vacancies as of 12/31/2006, and 234 vacancies as of 12/31/07; none of the above efforts have resulted in a reduced vacancy rate. It is understood that many units are beyond normal repair status and will require massive amounts of capital to renovate, and that a loan has been applied for and approved for that purpose; however, chronic vacancies have plagued the Commission for years and none of prior attempts to improve the situation have resulted in any reduction of vacancies.

Cause-

Possible mis-management of past grants; inadequate solutions to the problem, too little HUD funding to keep up older units.

Finding 7-1, continued

Recommendation

The Commission has a new plan to borrow large amounts of capital to be repaid with future Capital Fund Program grants; the plan is to renovate the entire low-rise (family units) properties.

Other plans over the years were going to be the solution to chronic vacancies; the results have been suspect at best. The Commission down-sized one of the High-rise buildings and renovated the units; 100 efficiencies were redesigned to be one and two bedroom units- resulting in 60 rentable units. Since that renovation two years ago, the building has been fully occupied. The solution to the vacancy problem in that building was addressed and corrected successfully; the proposed solution to completely renovate the low-rise units may have a similar result, however, to date, the Commission has failed to address the vacancy problem.

Reply

In regards to Twin Towers Development underutilization, the North Tower of Twin Towers Development was renovated during fiscal year 2004-2006. Families residing in the South Tower were relocated from the South Tower after the renovation work was completed.

The South Tower has purposely remained vacant due to the lack of Capital Fund Program funding needed to renovate the South Tower as completed in the North Tower. Beginning January 1, 2008, the Inkster Housing Commission (IHC) reinstated the Inkster Group, Inc. as a 501 © 3 to explore mixed-financing opportunities for the remaining South Tower and is currently seeking a developer partner.

In addition, due to the further reduction in allocation by U.S. Department of Housing and Urban Development (HUD), it has become increasingly more important for the housing commission to seek alternative funding. Therefore, the Inkster Group, Inc. is vigorously pursuing an opportunity to submit an application to the Michigan State Housing Development Authority (MSHDA) for Low-Income Housing Tax Credits to attract a developer partner.

In regards to the low-income public housing program, underutilization of units, it has been an ongoing problem since the late 90's. However, in 2000 the current management realized this persistent problem in managing the housing stock. Therefore, in 2004, the current management team began an application process with Fannie Mae through the Modernization Express Program to leverage one-third of its annual allocation of Capital Fund dollars to totally renovate the developments.

Over the last four years, the current management team experienced hurdles and roadblocks from The City Council of Inkster to amend the ordinance to allow the IHC to create debt in order to renovate long-term vacant units. However, it is pleasing to acknowledge as of June 18, 2008, the IHC secured funding from Fannie Mae through the Modernization Express program in order to renovate apartments located in Lemoyne Gardens, Demby Terrace and Parkside Developments.

Management strongly feels that upon completion of the fore-mentioned renovated developments and marketing to families currently on the low-income public housing waiting list, long-term vacant units will become occupied.

The Inkster Housing Commission, Board of Commissioners will act upon execution of agreements with general contractors to renovate three developments on August 26, 2008.

The Housing Commission acknowledges Mr. DiPiero's statement regarding the remedy for vacancies. However, it has not been the intention that any one action by management would be a solution in itself. Management realizes that the previous modernization projects, undertaken are mutually exclusive and many other projects were simply performed to maintain the existing housing stock and improve the efficiency of energy consumption of residents.

Please be mindful of the fact that the Energy Performance Contract and the Modernization Express Programs are renaissance to maintaining a market share of affordable housing provided in the City of Inkster.

All long-term vacancies have existed due to the lack of Capital Fund Program funding. In fiscal year 2008, we have leveraged Capital Fund Program funding to create in excess of \$5 Million for renovation of developments beginning in September 2008.

7-2) Program under-utilization- Section 8 Housing Choice Voucher Program.

Criteria-

The Commission has a fiduciary responsibility to utilize programs granted under contracts and grants according to the program requirements issued by the funding agency-HUD.

Condition-

The Commission had acquired some Section 8 Housing Choice Voucher Program opt out units which have special lease-up rules; as of 12/31/06, 30% of all vouchers were not issued and leased- as of 12/31/07, 20% of all vouchers were not issued or leased. At 12/31/06, 234 of the opt out units were not issued, at 12/31/07 154 were still not issued.

Questioned Cost-

None

Effect-

The Commission has not fully utilized the available Section 8 Housing Choice Vouchers awarded to it; the program will suffer reduced funding and possible recapture of vouchers if the under-utilization continues. The underutilization has been reduced, but only marginally in the past year.

Cause-

Possible under-staffed situation, or untrained and ineffective staff; management oversight lacking.

Recommendation

The Commission agreed to take the opt out units with the understanding that the units were needed and could be utilized; if the situation does not warrant that conclusion, the excess vouchers should be returned to HUD.

I recommend that the Commission re-visit its needs as it relates to the Section 8 Housing Choice Voucher program; if the Commission has the need, it should address the lease up process to insure program utilization.

Reply

Over the last 12 months, the Section 8 program has issued large numbers of housing vouchers to applicants as housing preference qualifications. Many of the families that were initially issued a housing voucher was determined, by staff, to be ineligible for various reasons, both programmatic and/or credit worthiness. In addition, the housing commission's management has increased the staffing for the Section 8 program, in an attempt to service more families from the waiting list.

In regards to the Section 8 Program the problem occurred when the Inkster Housing Commission received a large number of Opt-Out Housing Vouchers from the U. S. Department of Housing and Urban Development (HUD). HUD indicated to Inkster Housing Commission that the families would be eligible to remain in place under the Tenant-Based Section 8 program. However, the staff discovered that HUD's assertion that the majority of the families would be leased in place with Section 8 assistance was not true.

Less than 2 percent of the families examined for eligibility became participants with the "Opt-Out" Section 8 Housing Vouchers. To increase the utilization rate, the Section 8 staff has removed housing preference qualifications as the criteria for families receiving Housing Vouchers. The removal of the housing preference qualifications will allow additional families into the Section 8 program without having to meet a housing preference qualification. Currently, there are an abundance of non-preference families on the Section 8 waiting list. All Non-Preference Families will be contacted to meet the utilization schedule by the end of the 2008 Fiscal Year. It is indented that by the end of the 2008 Fiscal Year, the utilization numbers will significantly increase.

As of July 2008, the Inkster Housing Commission announced and opened its waiting list for 300 families. Upon receipt of completed applications, families will be provided an opportunity to receive a Housing Choice Voucher prior to the end of this fiscal year as non-housing preference families.